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C O N F I D E N T I A L SECTION 01 OF 02 DUBAI 000391

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SUBJECT: DUBAI'S CITYSCAPE 2008 - (SUR)REAL ESTATE AMID FINANCIAL  
CHAOS

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CLASSIFIED BY: Paul Sutphin, Consul General, U.S. Consulate  
General Dubai, State.  
REASON: 1.4 (b), (d)

11. (C) Summary: Even as world financial markets tumbled and investor fears over an economic slide grew, bold (and costly) new projects for expanding the "Dubai dream" to even greater heights were unveiled at the seventh annual "Cityscape Dubai" exhibition October 6-9, the commercial to commercial real estate trade show that is one of the regions largest commercial exhibitions. Despite developer's big plans and big glitz, including unveiling of the new Dubai government developer Meraas' USD 350 billion "Jumeirah Gardens" project, there was a constant undercurrent of concerned discussion of the real state of Dubai (and regional) real estate, including market regarding demand, capacity and liquidity - and a distinct underlying uncertainty about how much is too much for the world's biggest construction site to bear, given the drying up of readily available commercial capital. End Summary.

(Sur)real Estate Dreams

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12. (SBU) Over 1,000 exhibitors and 60,000 participants (up 27 percent over 2007) converged on Dubai's convention center to hear the details and view spectacular, often room-sized models of some of the world's most ambitious construction and development projects. The Dubai government seeks each year to use the huge exhibition, which includes a smattering of prominent U.S. architects, property developers, and consulting firms, to build confidence and interest in the local and regional commercial real estate market. (Comment: This premise lent the glitzy event a particularly surreal quality this year, given the current global financial crisis, with developers, agents, and others in the industry working hard to focus attention on the expensive miniature renditions of their grand plans on display, rather than the cash-short world outside of the exhibit hall. End Comment.)

Impact Inevitable, Despite Brave Faces

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13. (C) Unsurprisingly, the developers with whom we spoke all expressed some degree of optimism about the local real estate market, noting that in times of trouble, real property is the one of the most reliable investments. Despite this, most developers admitted drops in liquidity levels; regional income from external investments; contractions in foreign capital coming in to the market; and tightened local lending practices (in the face of several unfolding local financial scandals) would undoubtedly have a significant, negative impact on many of

the projects on display. (Note: Of course, each developer had a thorough explanation of why his or her particular venture was immune to this constellation of problems.) Contacts in the banking sector have said to us that developer debt servicing is already a problem, particularly for "second tier" or newer developers, and that they - even more than local bankers or construction companies - will bear the initial brunt of the crisis. Reportedly (we have not been able to confirm) UK banks HSBC and Barclays, both significant players in the local market, have halted new lending for real estate projects for the rest of the year. Other sources have said project cancellations are on the increase; one claimed at least nine medium-sized, multi-building projects had been cancelled already.

Dubai Government Entities - Steady on, at least for now

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14. (C) Those companies largely linked to or owned by the Dubai government, including Nakheel, EMAAR, Dubai Properties, Sama Dubai and newcomer Meraas, all unveiled new projects ranging from massive to considerably large, with a peculiar air of indifference to the financial pressures facing their less connected colleagues. (Comment: and despite widespread rumors that many of these companies were having significant cash-flow problems and that Dubai has sought financing assistance from cash-rich Abu Dhabi as a result. End Comment.) Nakheel - part of the Dubai World family of companies and the developer of Dubai's Palm island projects - unveiled its massive model of the planned "tallest building in the world" at over one kilometer (the model alone was some 25 feet tall) - overtopping EMAAR's 70 percent-complete Burj Dubai, currently the tallest structure in the world, by some 200 meters. New wholly Dubai government-owned developer Meraas (which has grown from 3 to 135 employees over the last year) unveiled a massive model of "Jumeirah Garden City" - a project between the northern end of

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Dubai's Sheikh Zayed Road and the Gulf coast. The project, should it come to pass, will involve razing and reconstructing of much of Dubai's lower-middle class section of Satwa (already underway, to a degree), and will include waterfront land extensions, a landmark triple 150 story skyscraper (Dubai One) with a canal flowing between the buildings, and a range of other new buildings and facilities set to cost USD 350 billion.

15. (C) Like "Jumeirah Garden City," and continuing a trend of recent years, many of the most ambitious projects are set for Dubai's existing city center, effectively wiping out existing residential and commercial districts to make way for higher-end housing, shopping, and business. Coupled with this "out with the old, in with new" approach, however, was a, for the first time, prominent focus on (a degree of ) environmental sustainability and the re-introduction of traditional architecture and design -- particularly adjacent to Dubai's traditional center, The Creek -- to strengthen Dubai's indigenous culture that has largely been eroded by massive skyscrapers and planned communities.

16. (C) Comment: While at Cityscape, we spoke with analysts from real estate consultancy firms Colliers International and Jones Lang LaSalle. Both were, understandably, more willing to concede the negative medium and longer term impact of pressures on Dubai's real estate market than their property development counterparts. However, despite a consensus that a significant slowdown has begun -- and was, in fact, overdue in Dubai's overheated market -- they gave little credence to speculation that a full-fledged real estate collapse is in the offing. Both expect to release updated reports on Dubai's real estate market outlook in the coming weeks; we hope the reports will provide a balanced analysis of the questions surrounding one of Dubai's most important business sectors. We will continue to follow closely the outlook for Dubai's overvalued real estate market and, more importantly, the impact of a necessary correction on its already struggling banks and financial sector. End Comment.

SUTPHIN